



City of Rockville

MEMORANDUM

March 6, 2009

TO: Scott Ullery, City Manager

FROM: Gavin Cohen, Director of Finance

SUBJECT: RedGate Business Plan (Plan)

Background

Attached as requested is information in regards to the performance of the RedGate Five Year Business Plan (Plan). As you are aware, RedGate started losing money in FY 2000. Prior to that RedGate generated sufficient revenues to cover all of its costs. After cumulative losses from FY 2000-FY 2005 of over \$1million (\$1,127,164), staff undertook a comprehensive Financial Review (Review) that was adopted by the Mayor and Council on March 27, 2006. Following this Review, staff presented the Mayor and Council with the Plan that again was adopted by the Mayor and Council on May 22nd, 2006. An important part of any plan is the monitoring and reporting on whether the results projected and anticipated are being achieved, and it became clear to staff two years into the Plan, that it was not meeting its measures of success, and that a different approach should be considered. Staff is concerned that we will get to the end of the Plan period, and find ourselves with an accumulated deficit reaching \$1,580,467 in FY 2011 with no way out other than to obtain the funds from the City's General Fund with its concomitant impact on general programs and services.

Measures of Success

It is important to keep in mind that the Mayor and Council provided all resources requested as part of the Plan. This included a one-time grant of \$372,500 for capital improvements, an increase in resources for commodities and marketing of \$20,000 and \$27,500 respectively, and a 50% reduction in the City's administrative fee of \$89,500.

The Plan defined four measures of success:

- increasing rounds played,
- increasing dollars per round,
- turning annual deficits into annual surpluses, and
- a negative cash balance of (\$323,923) in FY 2011.

RedGate Business Plan (Plan)

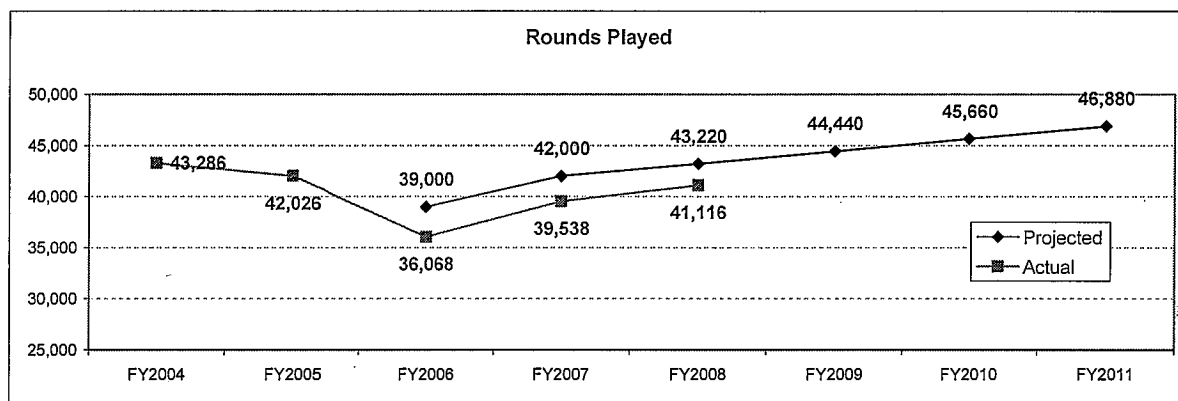
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"Rounds played increase to 42,000 in FY 07 and climb to 46,880 by FY 2011."

"Success is defined in terms of steady, feasible progress in increasing rounds played. An average increase of 1,220 rounds per year will turn around annual deficits to annual surpluses after three years." (Business Plan Scenario C adopted, attached)

Rounds Played (Business Plan projections versus actual reported rounds; FY09 actual through 12/31/08)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Projected			39,000	42,000	43,220	44,440	45,660	46,880
Actual	43,286	42,026	36,068	39,538	41,116	21,134		
Rounds Under Target			-2,932	-2,462	-2,104			

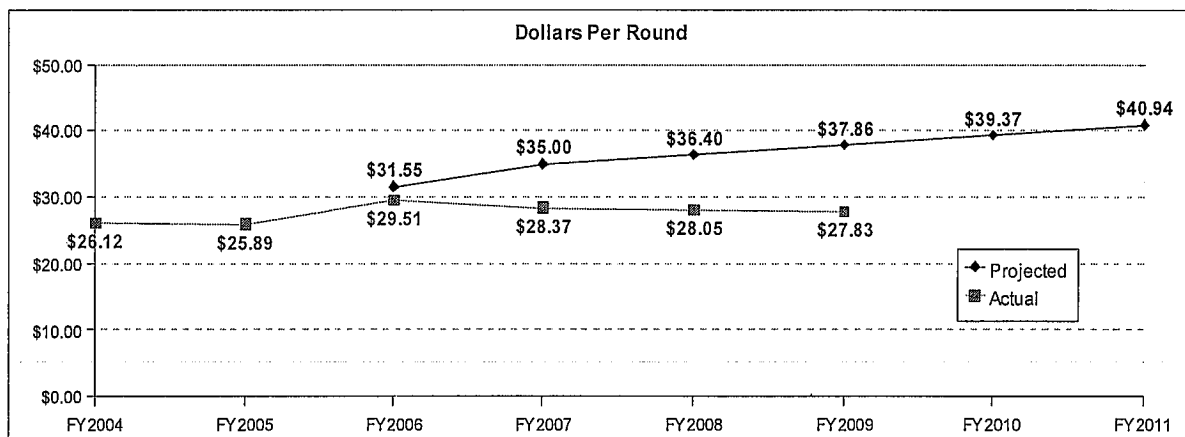


The data above reflects that to date an average increase of over 1,220 has been achieved, but that the total rounds are below the projected levels.

"Continue to increase average dollars per round...." (Business Plan Page 13; Bullet F Agenda)

Dollars Per Round (Combined Green Fees & Cart Rentals divided by Rounds Played; FY09 is based on actuals through 12/31/08)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Projected			\$31.55	\$35.00	\$36.40	\$37.86	\$39.37	\$40.94
Actual	\$26.12	\$25.89	\$29.51	\$28.37	\$28.05	\$27.83		
Difference	\$26.12	\$25.89	(\$2.04)	(\$6.63)	(\$8.35)	(\$10.03)		



The data above reflects that dollars per round is falling significantly below the Plan.

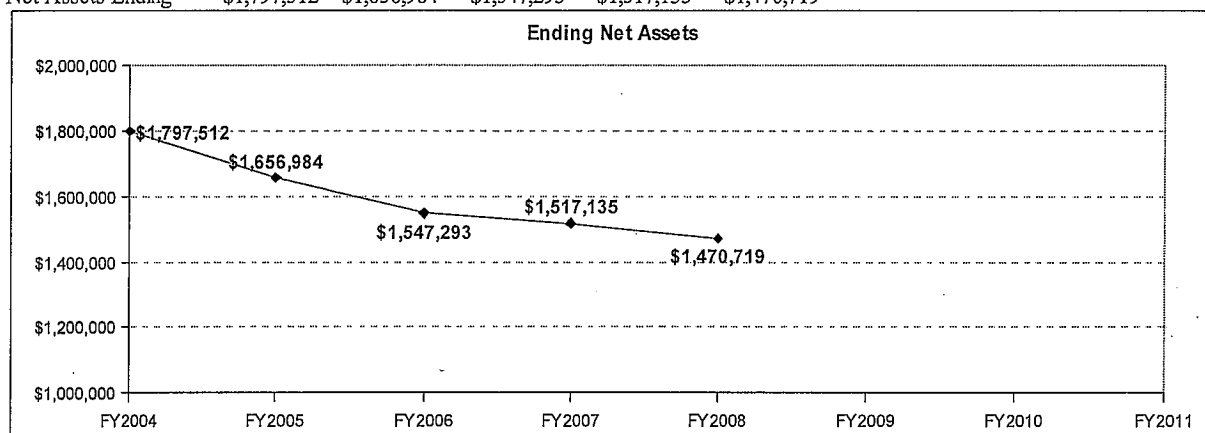
RedGate Business Plan (Plan)

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"RedGate begins operating "in the black" beginning in FY 09 and generates growing annual net income each year thereafter." "Beginning in FY 09 RedGate will again be operating annually "in the black."" (Business Plan Scenario C adopted, attached)

Net Assets (actuals taken from the City's CAFR)

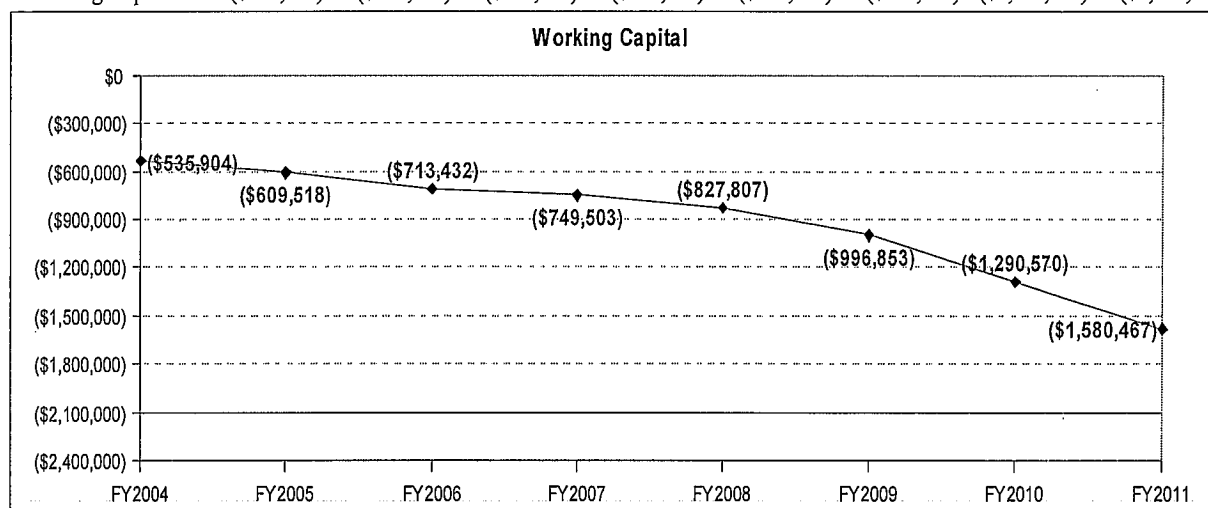
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Net Assets Begin.	\$1,938,618	\$1,797,512	\$1,656,984	\$1,547,293	\$1,517,135			
Net Income (loss)	(\$141,106)	(\$140,528)	(\$109,691)	(\$30,158)	(\$46,416)			
Net Assets Ending	\$1,797,512	\$1,656,984	\$1,547,293	\$1,517,135	\$1,470,719			



The data above reflects that RedGate has not operated in the black the first two years of the Plan, and projections show that it will not operate in the black over the life of the Plan.

Fund Deficit (actuals taken from the City's CAFR, projected figures from FY09 Adopted Five-Year Forecast)

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Working Capital	(\$535,904)	(\$609,518)	(\$713,432)	(\$749,503)	(\$827,807)	(\$996,853)	(\$1,290,570)	(\$1,580,467)



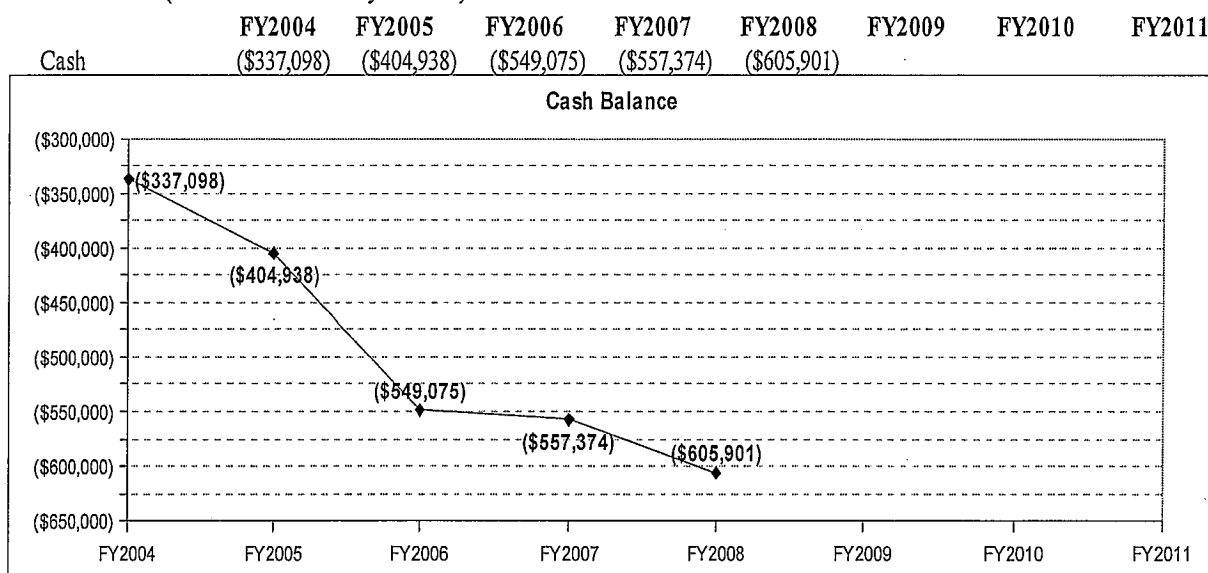
Working Capital is the City standard representing "accumulated deficit" which the data reflects is continuing to grow.

RedGate Business Plan (Plan)

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“At the end of FY 2011, the fund has a negative cash balance of (\$323,933), but is in the position to erase the cash deficit within three fiscal years, hopefully sooner.” (Business Plan Scenario C adopted, attached)

Cash Balances (actuals taken from City's CAFR)



Data reflects that the negative cash balance continues to grow, and is unlikely to reach the goal by FY 2011.

Enterprise Fund

There was an additional recommendation unanimously approved by the Mayor and Council which was that “RedGate should remain in an enterprise fund with the long term goal of covering all direct and indirect operating costs, all capital costs, and generating cash reserves.” (Business Plan Bullet A, Agenda)

RedGate has operated as an Enterprise Fund since inception in 1974. This has been the policy of the Mayor and Council for all of these years, a policy that has been reinforced several times recently, and staff recommends that this practice continue.

Generally Accepted Accounting Principles (GAAP) requires the use of an enterprise fund in three situations:

1. Debt in the fund is backed solely by fees and charges. This does not apply to RedGate.
2. Legal requirement to recover cost. This does not apply to RedGate.
3. **Policy decision to recover cost.** *“It is necessary to use an enterprise fund if the government’s policy is to establish activity fees or charges designed to recover the cost of providing services (including capital costs such as depreciation or debt service.”*

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There are several advantages to accounting for Golf in an enterprise fund as follows:

- Better management of the enterprise as similar to private industry
- Better of control over costs
- True cost of operations is visible
- Protection of the fees of the defined user group
- Improved decision making in regards to running the enterprise
- More accountability
- Significantly more transparency
- Separate set of financial statements for full disclosure

Though an operation that is accounted for in an enterprise fund is intended to cover 100% of its costs, some do not, which does not undermine the above advantages of operations being totally segregated. To the contrary, if an enterprise requires subsidy, the transparency of the extent of the subsidy is clearly evident, whereas if the same operation was part of the General Fund, the exact amount of taxpayers' dollars paying for a self-sustaining enterprise is difficult to determine.

Conclusion:

After two and a half years of the RedGate Plan, the data suggests that it is unlikely that the Plan will succeed, and a different course of action should be considered. Should the City not pursue the option of outsourcing the operations and maintenance, it is imperative for the City to start addressing the deficit during the FY 2010 budget process. There is clearly a structural problem; too few golfers, and too many golf courses. RedGate cannot operate in the same manner that it has in the past, and cover 100% of its costs.

Attachments:

Scenario C – Business Plan Model as Recommended

RedGate Data for Business Plan